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UNCLAS HARARE 000781

SIPDIS

SENSITIVE

STATE FOR AF/S
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PASS USTR FLORIZELLE LISER
TREASURY FOR ED BARBER AND C WILKINSON
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SUBJECT: Zimbabwe's Fuel Hikes: Why No Leadership?

Ref: Harare 779

1. (SBU) Summary: A week after raising fuel prices 3-fold, President Mugabe has offered no rationale or counsel to a shell-shocked populace. The aging Marxist seems unable to verbalize the case for economic orthodoxy. End Summary.

2. (U) Each day, this economy becomes more surreal. Many locals now pay more for commuting than they earn. They are understandably irate, a sentiment that labor groups have tried to channel into this week's mass action (ref). The man-on-the-street cannot fathom how the Government can now triple the fuel price - after doubling it in January.

Underproducing, Not Overpaying

3. (U) Though unspoken, the case for fuel hikes is straight-forward. Zimbabweans can no longer afford imports like petroleum. But they are not overpaying for fuel; they are underproducing to be able to purchase what they used to in the global marketplace.

4. (U) This is a policy-induced state. Through fast-track land reform, the GOZ has decimated commercial agriculture, the traditional source of most export revenue. Through other export-unfriendly policies - taxing, at one point, over 90 percent of export revenue - the GOZ has similarly crippled mining and manufacturing exports. (Bad governance also deprives Zimbabwe's highly developed textile sector of African Growth and Opportunity Act benefits.) Through retail price controls - often well below production costs - the GOZ pushed non-exporters to the brink.

Comment

5. (SBU) The GOZ does not want to blame low productivity for high transport costs, lest Zimbabweans question the policies that caused their poverty. Furthermore, the GOZ is ideologically uneasy defending the partial restoration of macroeconomic sensibility. So it offers no official defense of a policy shift that has thrust most Zimbabweans into confusion and despair. The GOZ's strategy of silently raising fuel prices in successive increments has not lessened the political fall-out - compounded by its failure to coordinate increases in fuel prices with increases in bus fares or wages. At a time when people yearn for a roadmap, there is no leadership. President Mugabe's Independence Day address and subsequent interview instead claimed that things are a bit tough now but will soon improve.

6. (SBU) Opposition and labor leaders are fanning this popular wrath. That's politics. Yet they realize the nearly-broke GOZ has little choice but to cut its preposterous fuel subsidy. As governing party, the Movement for Democratic Change would no doubt act the same (though perhaps softening the blow through better coordination with labor and more international support). To fully eliminate the GOZ subsidy - a luxury the Government can ill afford with minimal foreign exchange cover - fuel will have to become even more expensive.

Sullivan